INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 13 September 2018

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of this month. After September 2018, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and we anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The incoming information, including our new September 2018 staff projections, broadly confirms our previous assessment of an ongoing broad-based expansion of the euro area economy and gradually rising inflation. The underlying strength of the economy continues to support our confidence that the sustained convergence of inflation to our aim will proceed and will be maintained even after a gradual winding-down of our net asset purchases. At the same time, uncertainties relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.4%, quarter on quarter, in the second quarter of 2018, following growth at the same rate in the previous quarter. Despite some moderation following the strong growth performance in 2017, the latest economic indicators and survey results overall confirm ongoing broad-based growth of the euro area economy. Our monetary policy measures continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by rising wages. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the expansion in global activity is expected to continue, supporting euro area exports.

This assessment is broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020. Compared with the June 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2018 and 2019, mainly due to a somewhat weaker contribution from foreign demand.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. At the same time, risks relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently.

According to Eurostat’s flash estimate, euro area annual HICP inflation was 2.0% in August 2018, down from 2.1% in July. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level for the remainder of the year. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening and broadening amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. Uncertainty around the inflation outlook is receding. Looking ahead, underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion and rising wage growth.

This assessment is also broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020, which is unchanged from the June 2018 Eurosystem staff macroeconomic projections.

Turning to the **monetary analysis**, broad money (M3) growth declined to 4.0% in July 2018, from 4.5% in June. Apart from some volatility in monthly flows, M3 growth is increasingly supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations stood at 4.1% in July 2018, while the annual growth rate of loans to households stood at 3.0%, both unchanged from June.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt is high and for which full adherence to the Stability and Growth Pact is critical for safeguarding sound fiscal positions. Likewise, the transparent and consistent implementation of the EU's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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You've decided to reduce bond purchases from October. But you've still left the ending of the programme at the end of the year open to or dependent on the incoming data. Could you walk us through the arguments behind that decision; why leaving the ending of the programme still open?

Based on the forecast you've received today and the discussion that you had, would you say that the output gap in the eurozone is already closed or is close to being closed this year? Or we'll still have to wait for that to happen next year?

The answer to your second question is that we have seen growth rates now for some time above growth potential. To the first question, basically we haven't discussed this. My reading is here: we will reduce the monthly pace until the end of December. We anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. I think that's the text, that's what we've discussed; we haven't elaborated on that. But let me make clear that it's – when we stop, this doesn't mean that our monetary policy stops being accommodating. The amount of accommodation will remain very significant, through our reinvestment policy and through our forward guidance and interest rates.

Your new economic forecasts suggest that inflation will hover around 1.7% for the next two and a bit years; is that consistent with these mandates and the decision to phase out QE?

In relation to that: shouldn't the ECB be aiming for an overshoot on inflation rather than an undershoot given that it's been below target for so long?

The answer to the first question is, yes, it's consistent. We have seen convergence and that's what the discussion today confirms. We are seeing convergence of the inflation rate to our aim. We have confidence that this is happening, confidence based first and foremost on our monetary policy, which remains accommodative and second, on the underlying strength of the economy. The ever-improving conditions of the labour market - we'll maybe elaborate on that. But certainly the last number is also quite significant. The latest number about employment, it says that 9.2 million jobs have been created in the euro area since 2013 and rising wages. We are confident that our present monetary policy stance is consistent with our aim.

Second point: our objective is an inflation rate which is below, but close to 2% over the medium term; we stay with that, that's our objective.

I'd like to ask about whether or not there was any discussion – or even a discussion of when you will have a discussion – on the reinvestment policy.

I'd also be interested in your personal view of this idea floating around of an "Operation Twist"-style operation that could perhaps be tailored to the needs of specific eurozone member states.

Now, frankly we haven't discussed and we haven't – as I said last time, we haven't even discussed when we are going to discuss it. Now, having said that we have two meetings before year-end. So we either discuss next time or in December. It's just a matter of – we'll take this decision in the coming days, really. It was going to be at the level of committees first and foremost because it'll have to be prepared – properly prepared. Other than that, as you've seen from my reading, the reinvestment statement is exactly the same as before.

Now, we haven't discussed either the "Operation Twist" or whether to reinvest in different maturities. I think what I said last time – and I can confirm that even though we haven't discussed, I believe the Governing Council would be pretty unanimous on that – is that the capital key will remain the guiding principle.

Even if it looks open-ended, let's say that QE is about to end and there is growing confusion in Italy I think about what QE has been really all about. Some people think that QE is a sort of securities markets programme and that the end of QE will mean that Italy in particular will be abandoned, left alone to fight against attacks of speculators. I don't know whether you want to comment on what QE is really all about.

It's actually a comment made on other occasions in different contexts. The mandate of the ECB is price stability in the medium term. QE has been one of the tools we used to pursue this task. In the past the ECB was asked: why are we keeping, for example, interest rates negative and we are depriving the savers from their income? Or why are we hurting insurance companies, banks, through low interest rates? As always answered, the mandate of the ECB is not to protect bankers' profits or insurance companies' profits. In this case, responding to your question, it's not to ensure that government deficits would be financed under all conditions. Our task is to pursue price stability.

You've mentioned increasing risks concerning emerging markets. The currency crises in Argentina and Turkey seem to have contagion effects on other emerging markets. How much of a threat is that for the eurozone economy and the world economy?

The current problems in the emerging markets seem to be related at least partly also to the tightening of monetary policy in the US and the withdrawal of liquidity. The ECB also anticipates to stop net purchases next year. What kind of risks do you expect when the two main central banks reduce liquidity?

Well, considering the first questions, the increased uncertainties in some emerging markets is certainly one factor that adds to the general uncertainty in world markets. But having said that, so far the spillovers from Turkey and Argentina to other countries have not been substantial. Once again as we've seen two or three years ago with similar crises in emerging markets, once again it is shown that the countries that are most vulnerable to contagion are the countries which have the weakest